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ABSTRACT

This newsletter summarizes the debate on the use of state-level initiatives as levers to effect fundamental changes in higher education. It provides several perspectives on the use of incentive/enhancement programs to achieve state higher education goals. The concept of budgetary leverage is outlined, and the growth in enhancement programs nationally is cited. Three main areas of enhancement funding programs are listed: categorical programs (funds are legislatively earmarked for specific purposes), competitive programs (institutions compete for funds according to program criteria), and incentive programs (matching funds or special funds are offered in return for achieving specific goals). Concerns about the process used to develop incentive program goals are discussed, including the lack of attention to fundamental budgetary needs, the need for faculty cooperation in program development, and the distribution and direction of the funds. Advantages and disadvantages of enhancement programs are noted, and four ingredients for a successful incentive program are identified. Tables present data on numbers of enhancement programs by major purpose and by state, and present data on state appropriations. Includes five references. (JDD)

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BRIEFINGS

State Incentive Funding: Leveraging Quality

Are state-level initiatives the best levers to effect fundamental changes in higher education? Yes and no, according to higher education policy-makers. The debate centers on fiscal incentive programs and their role as an integral part of the overall strategy for parsing quality of higher education into manageable pieces.

During the last decade policy-makers have witnessed a variety of state efforts to improve higher education through mandates and regulations. One outcome has been a growing recognition of the limits of regulatory strategies. States are turning more to providing fiscal incentives for achieving state goals for educational quality.

Budgetary incentives—the use of budget increments to support "target" or "enhancement" programs—could induce institutions to improve; but experience has shown that incentives do not always produce intended results. This issue of *Briefings* provides several perspectives on the use of incentive/enhancement programs to achieve state higher education goals.

The focus is an outgrowth of a 1988 Governance Forum sponsored by the National Center for Postsecondary Governance and Finance (NCPGF). The Forum targeted funding programs in Florida, a state very active in the use of incentives. In 1989, the Forum surveyed all 50 states to determine the level of interest in, and use of, fiscal incentives. The Forum also brought together representatives from academic institutions, state higher educations agencies, legislatures, institutional boards and state governors in a Fall 1989 conference to review the use of incentives and to suggest ways to increase their effectiveness.[1]

Leveraging Quality

States have used financial incentives as an alternative mechanism to regulation for translating policy objectives into institutional practice. Now states are using these "green carrots" to support specific state priorities for the higher education sector. Leveraging resources to achieve quality improvements has been a theme of the 1980s. In 1985, there were 43 enhancement programs nationally, but by 1989, the number of programs had increased to 116 in 32 states.[2]

For a better understanding of incentive funding it is important to grasp the concept of leverage. The 1989 draft report of the Virginia Commission on the University of the 21st Century articulated how budgetary leverage might be brought to bear in higher education:

> Virginia should focus on the incremental funding available to higher education in each budget and devise a way to use that money to leverage the greatest possible change in the directions suggested in this report...We realize that our proposal is a striking departure from the current system. But we think that the current system, for all its virtues, does not provide sufficient incentives to encourage substantive changes in curricula or management practices.[3]

In the 1989 national survey conducted by the Forum for College and University

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[1] Conference proceedings will be available from the National Center in the Summer of 1990.
[2] 1989 Governance Forum Survey.
[3] Commission on the University of the 21st Century, Commonwealth of Virginia.

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BRIEFINGS

Briefings is a semiannual publication of the Forum for College and University Governance, a project of the National Center for Postsecondary Governance and Finance. As a clearinghouse that collects, evaluates and disseminates new ideas for higher education governance, the Forum also communicates research findings through newsletters, monographs, conferences, seminars and workshops. Cresap, a Towers Perrin company specializing in management consulting, serves as technical consultant to the Forum.

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Governance, six states disclosed, in confidential responses, that for the foreseeable future, all increments in higher education budgets (other than minor adjustments to the base) would be distributed through some type of incentive/enhancement program. States responding to the Forum survey exhibited great diversity in the amount, type and purpose of incentives provided. They all agreed about one point—the use of fiscal incentives is increasing.

States with enhancement programs have learned over the years what others should know at the outset. Timing, contextualized language and ownership by those involved are critical to the long-term success of enhancement programs.

Particulars of Incentive Funding

Fiscal incentive programs are intended to reward and encourage institutional differentiation. They are constructed to make state policy goals concrete through the mechanism of the budget and are based primarily on the use of outcome indicators as measures of the extent to which institutions achieve objectives.

Although some implicit incentives have been present in budgets, targeted programs are considered by many to be particularly valuable for offsetting the homogenizing effects of regular budgeting practices.

Incentive/enhancement funding programs fall into three main areas:

1. Categorical programs are legislatively earmarked funds for specific purposes. All eligible institutions meeting application requirements receive funds.
2. Competitive programs operate as grant programs. Institutions submit proposals and compete for funds according to program criteria.
3. Incentive programs offer matching funds or special funds in return for demonstrating progress or achieving a specific goal.

Each approach represents a different philosophy of allocation. Funds are either distributed on the basis of parity, on the basis of selectivity or in some combination. Fiscal incentive programs tie state appropriations to inputs, such as centers of excellence, eminent scholars, faculty pay; processes or

State Enhancement Programs

Major Purpose	Number of Programs				
	Categorical	Competitive	Incentive	Mixed	Total
Economic growth; Technology transfer; Applied research	5	10	5	3	23
Minority issues: students, faculty	11	6		3	20
Eminent scholars		15		2	17
Undergraduate education	3	8	2	2	15
Equipment, labs, computers	3	6	2	1	12
Basic research; High technology	2	5	1	3	11
Centers of excellence		5	2	2	9
General enhancement	2	4	1	1	8
Inter-institutional cooperation		4			4
Faculty and curriculum development		1	2		3
Other*				17	17

*The 17 other programs relate to health, libraries, agriculture, school/college collaboration, aid to private institutions, handicapped services, extension services and administrative efficiency.
Note: Items are rank ordered by type and major purpose. (Some programs have multiple purposes.)

activities, such as assessment programs; and outputs, such as learning outcomes or improved graduation rates.

Increasing Interest in Fiscal Incentives

Political and educational leaders have, to an increasing degree, analyzed and funded higher education in ways similar to those used by other state agencies. Expectations for a return on public investments has increased accordingly. Thus, tying specific program purposes to specific dollars has become an established practice.

At the 1989 conference, a state higher education executive officer (SHEEO) from a southern state claimed his state funding formula was not producing the changes for which he had hoped. So, legislators proposed a supplementary program of incentive funding, which they found to be attractive because of its specificity. Another SHEEO from a midwestern state suggested that when resources are lean, institutions have ac-

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cepted accountability measures as a way of funding new initiatives.

Many campus academic leaders view these tactics as coercive attempts by legislators to get higher education institutions to meet state demands, or at least to close the perceived communication gap between state and campus. However, by offering fiscal incentives, states provide some institutions with a basis for changing their ways—especially when (1) their goals are clearly articulated, (2) campus administrators and faculty have a stake in choosing both ends and means and (3) adequate support is given through the base budget. These change strategies give people within the academy the incentive to rethink and develop new ideas with promising outcomes.

As tight state budgets precipitate greater expectations for accountability in higher education, it is likely that educational funding will come through targeted programs rather than through marginal increases in general appropriations. Whether these will be new funds or funds drawn from the base will vary widely among states and programs within states. Clearly, incentive programs are more acceptable (and more motivating) when they are additions to, rather than replacements of, base funding.

Incentive Strategies Raise Concerns

Higher education policy-makers are concerned about the process used to develop incentive program goals. Specific fiscal arrangements hold in tension the balance between state needs and institutional missions. Greater reliance on incentives may draw attention away from an institution's fundamental budgetary needs. Thus, adopting a "carrot" culture may not alleviate that tension.

A second concern rests on the role of faculty. Although faculty cooperation is crucial to program success, faculty cooperation most often is sought after programs are developed.

And third, planners are concerned with the distribution and direction of the funds. They must consider whether funds should be distributed among all institutions, targeted toward weak programs to build them or used as rewards for achievement and excellence. To further complicate matters, not all policy-makers view fiscal incentives from the same vantage point.

Currently, institutional representatives tend to argue for parity according to the differentiation of missions. SHEEOs tend to see incentives as powerful financial tools that operate on the fiscal margin of institutional support and represent the "extra dollars for excellence." Finally, legislators typically see incentives as tools for accountability in exchange for internal flexibility.

What Are the Ingredients for Success?

Given the lack of consensus on quality and appropriate measures of outputs, the most common measure of success for incentive pro-

States With Programs

States	Number of Programs
Florida	17
New Jersey	12
Connecticut, Massachusetts, Wisconsin, Ohio, Tennessee, Alabama, Maryland, Michigan	5-8
Illinois, Louisiana, South Carolina, Virginia	4
Iowa, New York	3
Arizona, Georgia, Kentucky, Oklahoma, Oregon, Rhode Island, Texas	2
Arkansas, Idaho, Minnesota, Missouri, Nebraska, North Carolina, Pennsylvania, Washington, West Virginia	1

grams is expressed in terms of "asset building." For example, success can be measured in such ways as dollars matched and new positions funded for faculty.

And although the actual impact of such grants on institutions has yet to be thoroughly assessed, the following four guidelines should be considered:

1. The goals of the program must be narrow, specific and clear.
2. There must be agreement on measures of institutional progress toward goals.
3. Incentives should be aimed at the organizational level of the persons responsible for achieving change.
4. The program should be part of a complete plan, strategy or blueprint for developing a state's higher education system.

Keeping a Healthy Skepticism

The debate on state-level initiatives will continue to rage in the higher education arena. Clearly, fiscal incentives as tools to improve education should be more than just a gimmick to get new funding or a scheme to bridge the gap in trust between states and campuses or even a technique to expand funds and programs under conditions already marked by an overloaded base and infrastructure.

Are state-level initiatives the best levers to effect fundamental changes in higher education? Perhaps. The higher education community sees incentive programs merely as a class of policy and financial levers that can be used to improve quality. These programs may continue to be popular with governors, staffs, legislators and board members; however, enhancement/incentive programs are not a panacea that will solve all higher education problems.

State Appropriations for Enhancement Programs

	Years					
Type	81-85	86-87	87-88	88-89	89-90	Total
Categorical	162.6	97.6	82.9	71.6	63.0	477.7
Competitive	71.8	67.2	92.7	69.1	71.7	372.5
Incentive	39.6	35.2	66.1	86.0	71.3	298.2
Mixed	19.6	8.5	16.6	24.3	29.1	98.1
Total	293.6	208.5	258.3	251.0	235.1	1246.5

Note: Figures are rounded to the nearest tenth of a million dollar.

Recommended Reading

Commission on the University of the 21st Century. 1989. "The Case for Change." Richmond: Commonwealth of Virginia. Draft Report.

Folger, J. 1984. Financial Incentives for Academic Quality. San Francisco: Jossey–Bass, Inc. New Directions for Higher Education, No. 48, December.

Ewell, P. 1985. Levers for Change: The Role of State Government in Improving the Quality of Postsecondary Education. Denver: Education Commission of the States.

Folger, J., and McGuinness, A. 1984. Catalog of Changes: Incentives for Quality and Management Flexibility in Higher Education. Denver: Education Commission of the States.

Caruthers, J.K., and Marks, J.L. 1988. A Summary of State Funding of Higher Education for Quality Improvement: SREB–State Trends and Actions. Atlanta: Southern Regional Education Board. 1988.

Survey of the States on Fiscal Incentive Practices

In August 1989, the Forum for College and University Governance surveyed the central offices of higher education in 50 states and Puerto Rico for information on incentive programs now in use. Of the 48 states responding, 32 reported having established 116 enhancement/incentive programs. Program participation ranged from Florida with 17 and New Jersey with 12 to states with no more than one. Six states without programs reported interest in adopting one or more in the future.

The majority of programs are competitive, emphasizing selectivity and diversity in the distribution of funds. However, the largest portion of funds ($477 million over 10 years) has been channeled through categorical programs for which all institutions are eligible to compete. An increasing proportion of funds are now allocated through incentive (matching) programs. However, total dollars for enhancement programs have declined slightly in the last two years, a reflection of overall budget conditions in a few states.

Respondents were invited to cite advantages and disadvantages of enhancement programs in their states.

Advantages

- "From the statewide perspective, incentive funding programs offer an excellent means of providing targeted funding for specific areas of academic or economic concern...These types of programs channel funds directly to projects which service statewide policy priorities."
- "The program allows (the state board) to have a more direct impact on statewide initiatives, such as minority achievement, than might otherwise have been the case through the budget process or other avenues."
- "The major advantages are the focusing of institutional attention on an important problem, the shifting of institutional emphasis to outcomes and effectiveness, the enhancing of the credibility of higher education with the legislature and governor and the providing of funds to institutions where they have already excelled or demonstrated the probability of achievement."

Disadvantages

- "It's a disadvantage if the reporting requirements are extensive, because they divert staff time from regular duties."
- "...the allocation discussion can become a zero–sum game with decisions made in terms of institutional winners and losers rather than with a focus on the overall purposes and goals of the program."
- "The competitive review process delays the start of projects, which would have been funded directly in the budget."

BRIEFINGS

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